



October 30, 1986

SUBJECT: Development of Realistic Farm Operating Budgets

TO: All State Directors and State Directors-at-Large, FmHA

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to stress the importance of sound, realistic annual farm operating budgets for use in insured and guaranteed loanmaking and servicing decisions. The intent of this AN is to assure compliance with policy and regulations as they relate to prudent loanmaking and proper servicing actions necessary to accomplish program objectives and minimize loan losses.

IMPLEMENTATION RESPONSIBILITIES:

The development of realistic budgets to support insured and guaranteed loanmaking and/or servicing actions remains a major concern. Reviews by National Office teams and various oversight authorities indicate that loans are being made and servicing actions taken based upon projections of production, income, and expenses that cannot be supported or verified.

Several questions are being raised concerning repayment ability and adequate cashflow. FmHA Instruction 1924-B, §1924.57 (c)(5)(ii) states that plans must show the borrower will be able to meet necessary payments on debts. Necessary payments on debts means all debts regardless of purpose or when they were incurred. Sound Farm and Home Plans or other farm financial projections must reflect repayment on the full scheduled installments for ALL debt obligations. FmHA's basic objective does not include providing new, additional, or continuing assistance in cases where realistic farm financial plans do not indicate the farm or ranch operation has the capability to pay the total amount of installments due on ALL debts. Debt carried by other creditors may need to be written down or rescheduled and must provide the borrower with a planned and written agreement for payment. This includes all types of credit.

The following actions should be considered to insure realistic plans are developed:

1. States should establish an annual commodity price list to provide guidance to the county offices in developing consistent commodity

EXPIRATION DATE: September 30, 1987

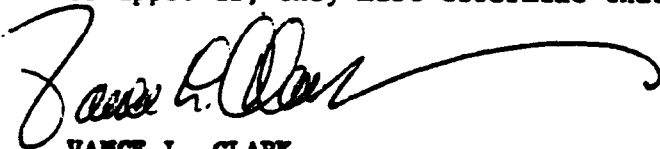
Filing Instruction: Preceding FmHA
Instruction 1924-B



pricing for the State. States should consult with Extension, Land Grant Colleges, adjoining FmHA State farmer program staffs, and other sources in developing a list of commodity prices anticipated for the production year.

2. The planned production and expenses must be consistent with the borrower/applicant's actual production and financial history. For existing farmers actual production and financial history will be utilized. For new applicants, actual production and financial records will be used if available. If actual records are not available, then ASCS farm history records should be utilized. County averages should be used only if no other records are available.
3. Any anticipated benefits from Government price support programs will be considered when the operating plan is developed. County Supervisors will consult with local ASCS officials for program information on the local level for planning purposes.
4. Farm and Home Plans will be reviewed by the approval official after preparation to assure accuracy and completion of data and computations.
5. District Directors will post review at least 10 percent of all farm program loans approved in each county office for feasibility and soundness on a monthly basis or more often, if necessary, in the opinion of the District Director. Findings will be reported to the State Director with recommendations for correction and any requests for assistance in corrective action if necessary. State Directors will be responsible for assuring that post reviews are being conducted, and will followup on reports of deficiencies in loanmaking to insure that proper corrective actions are taken. This should be appropriately noted in the elements and standards of each District Director.

Loan approval officials are reminded that FmHA Instructions require that prior to approval, they must determine that the proposed loan is sound.



VANCE L. CLARK
Administrator

Sent via electronic mail on 11/05/86 at 9:11 am. by DASD (IMPS). State Directors will immediately distribute to the Farmer Program Chief and all District Directors and County Supervisors